

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF GTE SOUTH,)
INCORPORATED) CASE NO. 10117

O R D E R

IT IS ORDERED that GTE South, Incorporated ("GTE") shall file an original and 17 copies of the following information with the Commission, with a copy to all parties of record. In the event that a response to individual items becomes extraordinarily voluminous GTE shall file an original and two copies of that response, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company, total Kentucky and jurisdictional operations on an independent basis with each

specifically identified. The information requested is due no later than April 19, 1988. If the information cannot be provided by this date, a motion for an extension of time must be submitted stating the reason for the delay and the date by which the information can be furnished. The Commission will give due consideration to such motions.

1. Explain why Mr. Austin did not use IBES estimates of dividend growth in developing his DCF estimates.

2. Provide legible photocopies of Item 7 in Staff Request dated March 4, 1988.

3. Reference the response to Item 30 of Staff Request dated March 4, 1988.

- a. In paragraph number 2, reference is made to the service contract entered into by GTE Service Corporation and GTE Companies. Do the individual GTE Companies have the prerogative of not entering into the contract?

- b. In procedure 2 of the Arthur Andersen and Company Report, reference is made to GTE Labs allocation based on revenues and sales. It would appear that such an allocation method could result in a dynamic area such as Kentucky absorbing more of the cost than a less dynamic area. Is this possible? If not, please explain why it is not?

- c. Please explain how time estimates are prepared by GTE salaried employees referred to in procedure number 3 of the Arthur Andersen and Company Report. How are items such as seminars and time donated to charitable organizations recognized?

4. Reference the response to Item 31 of Staff Request dated March 4, 1988, and explain the following:

a. GTE International, Information Resource Center, Corporate Contribution, Real Estate, National Sales, Interactive Services Group, Curriculum Development, Central Procurement, Energy Resources, Logistics Planning, Cerritos Project, Norwalk Health Maintenance, Norwalk Support Services, International Administration, Telops Early Retirement, Executive Incentive Plan - Telops Headquarters, Occupancy, Shareholder Services, Proxy, Shareholder News.

b. Are not some of these services duplicated in the operating companies?

c. Please explain how the activities of the items listed in (a) above benefit the Kentucky ratepayers.

5. Regarding the response to Item 32 of Staff Request dated March 14, 1988, please respond to the following:

a. It appears that a substantial number of expenses have increased due to the change in allocation factors. Has the company received rate reductions in other states experiencing decreases in expenses.

b. Are any of the General Office Carrying Charges attributable to other than the test period? How much would the allocation for account 772 be if concession services for G.O. employees were not considered in the allocation, if Kentucky depreciation rates were used, and if the rate of return authorized in GTE's last rate case was used in the calculation on a monthly basis for the test period?

6. In Item 34, what are the fully loaded labor rates being billed to GTE? How do these compare with non-affiliated vendors? Give examples.

7. With regard to Item 38, if restatement of test year financials is impossible, how can GTE's capital to expense shifts be an accurate estimate?

8. With regard to Item 43a and 43b and the directory retention factors, is it possible for GTE to contract with a company other than GTE Directory for directories? If yes, explain why GTE has not done so. If the explanation involves economic considerations, please provide all studies, workpapers, etc., which illustrate the economic benefits to GTE of the current relationship.

9. With regard to Item 59, provide a cost/benefit analysis to show the decrease in expense levels as a result of this operation as it relates to the Kentucky unit.

10. With regard to Item 45 of the Staff Request dated January 15, 1988, provide an analysis of the carrying charge rate for each account shown on page 3 identifying each component of the carrying charge, i.e., maintenance, amortization, taxes, return and so on? If a sum of factors was used, please provide separate factors for each month.

11. In Item 45 of the Staff Request dated January 15, 1988, the analysis of the October charge to Kentucky of \$22,639 (\$71,845 x 31.51%) was captioned as General Office Concession. In your reply in Item 78 of the Staff Request dated March 4, 1988, you

captioned the same amount as General Office Official Telephone Service. Please explain the difference.

12. Due to the magnitude of the adjustment, would GTE consider a longer amortization period, such as 10 years, for the USOA implementation costs?

13. Refer to Item 5, Attachment 2 of the response to the Attorney General's request No. 1 Volume 2:

a. Has GTE switched to full NARUC allocation methods for G.O. allocations?

b. If GTE has changed to full NARUC method of allocation, why are there Kentucky direct charges in the allocation base?

c. Didn't the switch to full NARUC allocation methods eliminate any direct billing from the general office?

d. Provide a complete narrative explanation of what the \$207,769 True-up of Accrual is and provide workpapers with complete documentation of how the figure was derived.

14. In Item 26, page 1 of 2, Staff Request dated March 4, 1988, in paragraph 2 GTE refers to \$28 Million of direct charges relating to data processing, engineering, etc. In Attachment 1, Item 26, page 1 of 1 of the same request, GTE shows direct charges to Kentucky at December 31, 1986, of \$94.79 million and \$89.8 million at December 31, 1985. Explain why direct charges for the 12-month period ending June 10, 1986, could be \$28.0 million but at December 30, 1986, they were \$94.79 million. Also explain why the same charges increased from \$28.0 million in GTE's most recent rate case to \$89.6 million in the instant case.

If these figures are not comprised of the same items, please explain and provide information concerning their derivation.

15. Giammarino Schedule 3 provides Kentucky combined and intrastate net investment.

a. Provide in the same format the net investment of the total company based on the methodology used to derive Kentucky combined net investment along with comparable data for the remaining states of GTE.

b. Provide a schedule similar to (a) above for each jurisdiction using as its parameters the Commission's methodology as used in the most recent rate case of GTE.

c. Reconcile any difference between total company net investment and the total company capitalization as shown on Giammarino Schedule 4.

16. Provide working papers showing in full detail the support for Giammarino Schedule 9.

17. Please provide a copy of the modified Electronic Stored Program Control Conversion Plan as soon as it is available.

18. As indicated in response to Item 54 of the Staff Request dated March 4, 1988, provide copies of the full workpapers to substantiate all of the net present value numbers presented in the cluster studies as soon as these workpapers have been located.

19. Provide copies of the full workpapers to substantiate net present value numbers for all planned central office conversions. This is assumed to include, as a minimum, copies of Cashflo Project File Inputs as contained in Tables 2A and 2B of the Cashflo Handbook for Parameter and Project Files.

20. Provide a listing of all GTE central offices in Kentucky. Provide a description of the switching equipment in each central office, such as the type of equipment, manufacturer, in service date, number of access lines, and if applicable, the date scheduled for conversion. For all existing and planned remote switching equipment, identify the host office.

21. Item 61(c) of the Staff Request dated March 4, 1988, asked for an explanation of why Remote Call Forwarding is unavailable on a local basis. The response indicated that this service is contained in Section S13.7.1.a of the tariff and described the service. Please provide the requested explanation, such as why it is feasible to provide this service between exchanges when a toll charge is applicable, but not between exchanges in the same local calling area.

22. Since the use of dedicated line extensions seems to be an inefficient method of providing Foreign Central Office service, please explain why this service cannot be provided in the manner described for Remote Call Forwarding in offices which have stored program controlled switching equipment.

23. Provide support for the response to Item 61(e) of the Staff Request dated March 4, 1988, in which it is stated that "Foreign Central Office service is an extension of line appearance to another central office serving area" for offices which have stored program controlled switching equipment.

24. Please identify the test year revenues associated with Foreign Central Office service. Please do not include Foreign Exchange revenues.

25. Please respond to Item 62-1(c) of the Staff Request dated March 4, 1988, in which it was requested that a disaggregation of expenses relating to trouble isolation services be supplied.

26. Please identify all test year revenues associated with trouble isolation services that were booked in unregulated accounts, to include an allocation of trouble isolation revenues associated with unregulated maintenance plans.

27. Item 53(d) of the Staff Request dated March 4, 1988, asked for a listing, by account number, of the amount of all unregulated expenses incurred in the test year. The response provided a listing of unregulated expenses which were booked in regulated accounts and later removed from regulated expenses by Adjustment K. Please respond to the question and provide a listing of all unregulated expenses incurred in the test year, particularly as they apply to the installation and maintenance of inside wire and the provision of unregulated customer premises equipment.

28. The method used for determining the allocation of period expenses is based on amounts incurred primarily in November and December of 1986; therefore, some other allocation method must be used to allocate period expenses for the rest of the test year. Please explain how this was accomplished and identify the amounts involved. Since there is no adjustment removing these amounts from the test year, it is assumed that these expenses are not included in the filing; however, this information is still requested.

29. Please reference the response to Item 52 of the Staff Request dated March 4, 1988.

a. Please show how the amounts listed under "State Toll Investment" and "Interstate Toll Investment" on page 3 of 7 were derived.

b. Please show how the percentages listed under "1987 Annual Expense Charge" and "1987 Annual Depreciation Exp. Charge" on page 4 of 7 and page 6 of 7 were derived.

30. Please reference the response to Item 44 of the Attorney General's information request dated February 17, 1988.

a. Do any of the carriers listed on Attachment 1 subscribe to Feature Group D access as well as Feature Group A? If so, please identify these carriers and provide their Feature Group D jurisdictional percentages.

b. Please explain any procedures used to investigate discrepancies in percent interstate usage reports, such as reporting 100 percent interstate usage or non-premium usage varying significantly from premium access.

c. Has any action been taken to investigate carriers identified on Attachment A which have reported 100 percent interstate usage on Feature Group A?

d. Please identify all carriers whose premium jurisdictional percentages differ from their percent interstate usage reports by more than five percent. Provide these percentages and revenues involved.

31. Provide the basis for forecasted units for existing and proposed packaged features, including any studies, surveys or

other rationale for such forecasts. (See Staff Request dated March 4, 1988, Item 62-2, Attachments VI and VII).

32. Explain how the income tax element was derived. (Response 62-2, Attachment IV, Line 20).

33. With reference to Staff Request dated March 4, 1988, Item 68:

a. Identify any developed areas and provide an estimate of the number of potential customers where facilities are not yet available to provide basic telephone service.

b. Does GTE have a tentative schedule for provision of telephone service to any such areas?

c. If so, will complete transition to single party service delay provision of basic telephone to those areas, or could service be provided at an earlier date by retaining 2-, 4-, and 8- party service?

34. Link-Up America and Lifeline programs are targeted to low income individuals who apparently cannot afford telephone service even at the lower 2-, 4-, and 8- party rates. Provide a detailed explanation as to how transition to the higher single-party rates will contribute toward implementation of a lifeline assistance program to meet this goal. (Staff Request dated March 4, 1988, Item 71).

35. Provide a schedule showing the number of customers who were charged the maintenance of service charge during the test year, the average customer cost per trouble repair call with the maintenance of service charge, and the average customer cost per trouble repair call if the non-regulated repair or trip charges

had been applied. (Reference Staff Request dated March 4, 1988, Item 74).

36. Provide the information requested in Staff Request dated March 4, 1988, Item 77.

37. The response to Staff Request dated March 4, 1988, Item 62-2, Attachment I, that shows proposed custom calling services rates and restructuring based on test year units would result in a revenue increase of \$136,918 over annualized test year revenue. The response to Attorney General Request, Item 136, states that no revenue changes for custom calling services were included in the instant case and that there is no revenue impact. Please reconcile these responses and detail any resulting changes in the revenue requirement and rates proposed. Also detail the effect of the increase based on forecasted units and revenues.

38. Tariff Section 113.1, First Revised Page 1 (see staff request dated march 4, 1988, item 62-2(f)) allows customers to select two or more custom calling features on the same line, which differ from proposed package combinations, at the same rates as currently provided. under these rates, residential call forwarding and call waiting would cost \$3.70. under the packaged rate, these two features would cost \$4.25.

a. explain why the packaged rate is \$.55 more when all other package combinations are less.

b. explain why no increase is proposed for these rates.

c. were all customers served under this tariff section during the test year included in staff request dated march 4,

1988, Item 62-2, Attachment I, as grandfathered packaged feature customers?

d. If the answer to (c) is "no", provide annualized units, annualized test year revenue, and proposed revenue.

39. Provide a schedule showing annualized test year units billed for the call diversion feature, annualized test year revenue, and proposed revenue.

Done at Frankfort, Kentucky this 5th day of April, 1988.

PUBLIC SERVICE COMMISSION


For The Commission

ATTEST:

Executive Director